

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Correa, et. al Analyst: Darrine Distefano Bill Number: AB 708  
Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: February 19, 2003  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Enterprise Zones/Extends to All Zones 20-Year Designation Period

### SUMMARY

This bill would allow all enterprise zones (EZ) to be designated as an EZ for 20 years if certain criteria are met.

### PURPOSE OF THE BILL

It appears that the purpose of the bill is to allow EZs designated after 1990 to be eligible to have the EZ designation period extended.

### EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2004.

### POSITION

Pending.

### ANALYSIS

#### FEDERAL/STATE LAW

Existing federal law provides for the existence of empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an EZ. Using specified criteria, the Technology, Trade, and Commerce Agency (TTCA) designates EZs from the applications received from the governing bodies. EZs are designated for 15 years. Currently, TTCA has designated 39 of the authorized 42 EZs.

An EZ designated before 1990, may have its designation period extended to 20 years if it meets the following requirements:

- The EZ received a superior or passing audit from TTCA.
- An updated economic development plan is submitted to TTCA that justifies the additional five-year designation period.

This extension does not apply to EZ's designated after 1990.

Board Position:

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Department Director  
Gerald H. Goldberg

Date  
04/15/03

Under the Revenue & Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within the EZ. These incentives include a sales or use tax credit, a hiring credit, a business expense deduction, a net interest deduction, special net operating loss treatment, and a tax credit for employees working in an EZ.

### THIS BILL

This bill would extend the designation period for EZs. As a result, EZs created after 1990 would also be eligible to have the designation period extended from 15 years to 20 years if they meet specified criteria.

Based on information from TTCA, the following EZ's would be eligible for the extended designation period: Altadena/Pasadena; Antelope Valley; Coachella Valley; Delano; Kings County; Lindsay; Long Beach; Merced/Atwater; Oakland; Oroville; Richmond; Army Depot (Sacramento); San Ysidro/Otay Mesa; San Francisco; Santa Ana; Shafter; Shasta Metro Redding/Anderson; Shasta Valley Siskiyou County; Stockton; and Watsonville.

### IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

### TECHNICAL CONSIDERATIONS

Section 7085 of the Government Code requires TTCA to provide a report to the Legislature on the effectiveness of the EZ program. Before the conversion of program areas (PA) to EZs, this section had the requirements for the designation of a PA. The reference to this section on page 4, line 6, is no longer applicable, and should be deleted.

Also, the reference to "Section 7073" should be deleted and replaced with the term "this section" to maintain internal consistency.

### **LEGISLATIVE HISTORY**

AB 516 (Matthews 2003/2004) would expand the 20-year designation to include an EZ located in a rural area after 1990. This bill is currently in the Assembly Appropriations Committee.

SB 172 (Ducheny 2003/2004) would, among other things, allow all EZs to be designated for 20 years. This bill is currently referred to both the Housing & Community Development Committee and the Senate Revenue & Taxation Committee.

AB 1846 (Correa, 2001/2002) was identical to this bill. This bill failed to pass out of the Senate Revenue & Taxation Committee.

### **OTHER STATES' INFORMATION**

Currently, 29 other states have economic development areas that allow similar tax related incentives to those provided in California's economic development areas. However, no information was found stating the length of time other states designate economic development areas.

## FISCAL IMPACT

This bill would not significantly impact the department's costs.

## ECONOMIC IMPACT

### Revenue Estimate

Revenue Impact Enterprise Zone Extensions (\$ Millions)			
Fiscal Year	2007-08	2008-09	2009-10
Revenue Loss	-10	-20	-35

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

Revenue losses for the extension of EZ status would largely depend on the amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming these tax benefits.

The revenue impact of the proposed legislation would first occur in 2007, the original year of expiration for 1991 designations. Under current law, some businesses in expired EZs would have unused carryover credits and net operating losses (NOLs) that would continue.

For 2007, the current law revenue impact is \$79 million. This includes \$63 million in continuing losses from the 21 existing EZs and \$16 million for 18 expired EZs that only use carryover credits and NOLs.

Under the proposed law, the total impact for the remaining 26 EZs (13 EZs that were designated in 1986 would conclude their 20-year designation in 2007) would be \$89 million. In 2007, the first five EZs that were designated after 1990 and scheduled for expiration would be extended under this bill. Therefore, it is estimated that this bill would result in an additional loss of \$10 million in the first fiscal year. As EZs continue to reach their normal expiration dates of 2008 through 2012, the number of EZs impacted by this bill would continue to increase. As a result, the revenue impact of this bill would also continue to increase over subsequent years.

Current law permits another EZ to be designated upon the expiration of an existing EZ, which was taken into account in this analysis.

## LEGISLATIVE STAFF CONTACT

Darrine Distefano  
Franchise Tax Board  
845-6458

[Darrine\\_Distefano@ftb.ca.gov](mailto:Darrine_Distefano@ftb.ca.gov)

Brian Putler  
Franchise Tax Board  
845-6333

[Brian.Putler@ftb.ca.gov](mailto:Brian.Putler@ftb.ca.gov)